Are you ready for 30 June 2023 reporting?

16 May 2023

Your facilitators are...

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Acknowledgement of Country

KPMG acknowledges Aboriginal and Torres Strait Islander peoples as the First Peoples of Australia. We pay our respects to Elders past, present, and future as the Traditional Custodians of the land, water and skies of where we work.

At KPMG, our future is one where all Australians are united by a shared, honest, and complete understanding of our past, present, and future. We are committed to making this future a reality. Our story celebrates and acknowledges that the cultures, histories, rights, and voices of Aboriginal and Torres Strait Islander People are heard, understood, respected, and celebrated.

Australia's First Peoples continue to hold distinctive cultural, spiritual, physical and economical relationships with their land, water and skies. We take our obligations to the land and environments in which we operate seriously.

Guided by our purpose to 'Inspire Confidence. Empower Change', we are committed to placing truth-telling, self-determination and cultural safety at the centre of our approach. Driven by our commitment to achieving this, KPMG has implemented mandatory cultural awareness training for all staff as well as our Indigenous Peoples Policy. This sincere and sustained commitment has led to our 2021-2025 Reconciliation Action Plan being acknowledged by Reconciliation Australia as 'Elevate' – our third RAP to receive this highest level of recognition. We continually push ourselves to be more courageous in our actions particularly in advocating for the Uluru Statement from the Heart.

We look forward to making our contribution towards a new future for Aboriginal and Torres Strait Islander peoples so that they can chart a strong future for themselves, their families and communities. We believe we can achieve much more together than we can apart.

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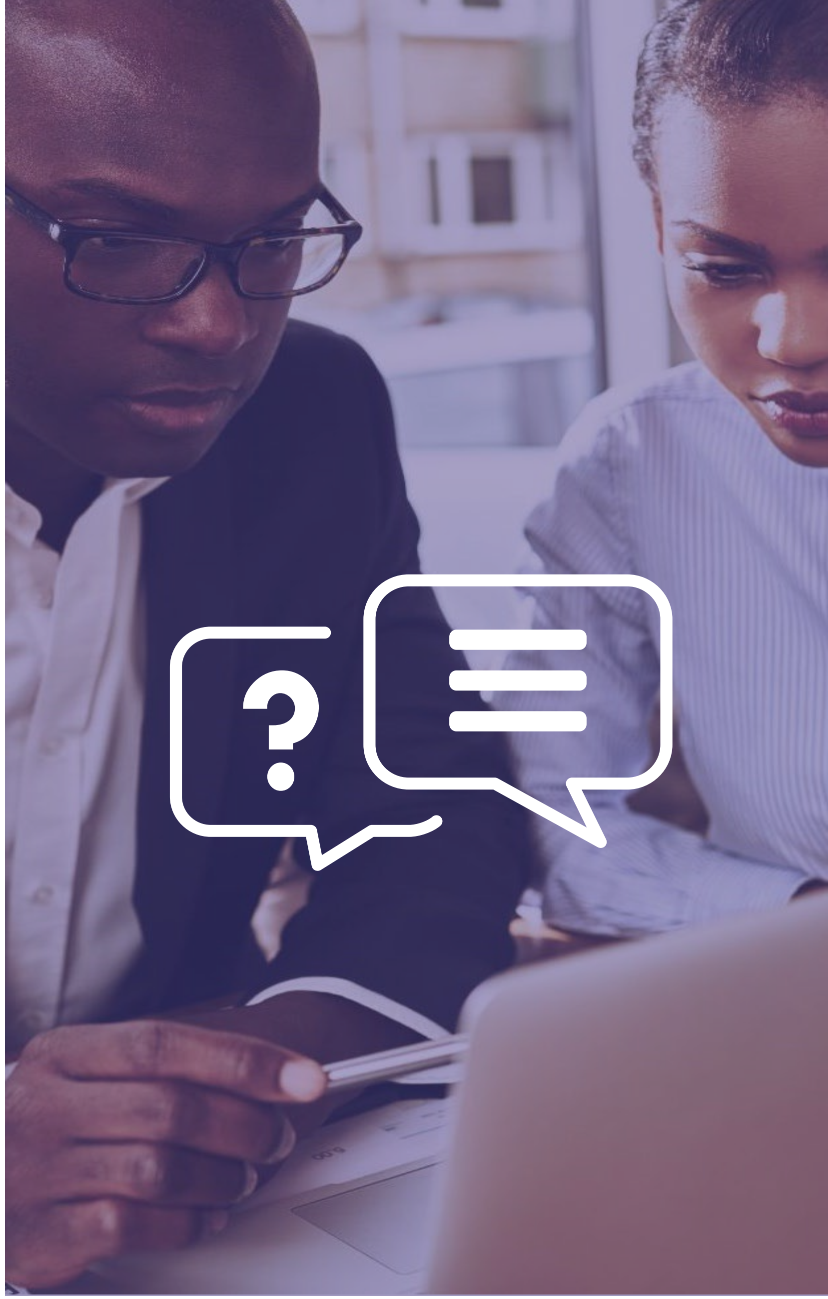
*This acknowledgement of country has been developed within KPMG Indigenous Network (KIN) should you wish to modify the wording please reach out for consultation of the KIN. The KIN is a culturally safe and supportive space for Aboriginal and Torres Strait Islander colleagues from all geographies, divisions, and levels of the firm and you can get in touch by emailing smoates@kpmg.com.au

What is our reporting context?



Agenda

New standards and IFRIC decisions

ESG update

Hot topic – Accounting for power purchase arrangements

Q&A

Regulatory update

Hot topics
– Current economic environment

– Cash and cash equivalents

– Global tax reform, BEPS 2.0

Wrap up

Q&A

New standards

New standards: 30 June 2023 Y/Es

AASB 2020-3 *Annual Improvements 2018-2020 and Other Amendments*

Onerous Contracts—Cost of Fulfilling a Contract

[Amendments to AASB 137]

Refer to 31 December 2022 webinar

Property, Plant and Equipment: Proceeds before Intended Use

[Amendments to AASB 116]

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Refer to 30 June 2021 webinar

AASB 2021-5 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* [AASB 112]

Refer to 31 December 2022 webinar

AASB 2021-2 *Disclosure of Accounting Policies and Definition of Accounting Estimates*

[AASB 101 and AASB 108]

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Other standards available for early adoption

Classification of liabilities as current or non-current
[IAS 1/AASB 101]

Fair value measurement of non-financial assets of Not-for-Profit Public Sector Entities (NFP) (PS)
[AASB 13]

Lease liability in a sale-and-leaseback
[IFRS 16/AASB 16]

Refer to 31 December 2022 webinar

Sale or contribution of assets between an investor and its associate or joint venture
[AASB 3 & AASB 128]

Supplier finance arrangements
[IAS 7/IFRS 7]

- Blue: Annual reporting periods beginning on or after 1 January 2024
- Purple: Annual reporting periods beginning on or after 1 January 2025
- Pink: Currently in the proposal stage. The amendments are expected to be issued in 1H23

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[AASB 3 & AASB 128]

Supplier finance arrangements
[IAS 7/IFRS 7]

Expected to be effective from 1 January 2024

- Terms and conditions
- Carrying amount
- How much has been paid by financiers?
- Range of due dates
- Liquidity risk

Annual reporting periods beginning on or after 1 January 2024

Annual reporting periods beginning on or after 1 January 2025

Currently in the proposal stage. The amendments are expected to be issued in 1H23

Classification of current and non-current liabilities

Classification of liabilities as current or non-current
[IAS 1/AASB 101]

Effective from 1 January 2024

Basis for classification

Organisation's **right to defer settlement** for at least 12 months after reporting period **must have substance** and **must exist at the end of the reporting period**.

	Debts with covenants	Liabilities that can be settled in a company's own shares (e.g. convertible debt)
Impact current or non-current	Covenants on or before reporting date	Conversion option recognised as a liability under AASB 132
Does not impact classification as current or non-current	Covenants after reporting date	Conversion option recognised as equity under AASB 132

Example: Classification of debt with covenants

Scenario

- United has a loan with a **covenant** that requires a working capital **(WC) ratio greater than 1.0** based on quarterly financial results on 30 June, 30 September, 31 December and 31 March.
- Loan becomes repayable on demand if ratio is not met at testing date.
- Otherwise, loan is due in full on 31 December 2028.
- **On 30 June 2025**, **WC ratio is less than 1** and United obtained **a waiver** before reporting date with respect to the **breach at this date only** and United **will still be subject to the quarterly covenant testing** in the future.
- United expects the **WC ratio to be less than 1** at the **next testing period** (30 September 2025)

Q: On 30 June 2025, should United present the loan as current or non-current?

Example: Classification of debt with covenants

Loan Waiver IAS 1 para 75

- Understanding of waiver wording is key
- Sufficient to satisfy IAS 1.75 requirement for breach at reporting date?
- Existing requirements for quarterly covenant testing are not affected by waiver that has been issued.

+

IAS 1 Amendment

Expectation of meeting future covenant

Does not impact classification of liabilities at reporting date

BUT new disclosure requirement applies

=

Non- current liability

Example: Classification of a convertible debt

Scenario

- On 1 January 2024, Sunflower issues a A$10,000 note with a conversion option, exercisable **at option of holder at any time.**
- If exercised, conversion feature will result in the principal amount of note being converted into ordinary shares of Sunflower based on a variable conversion price.
- If not exercised, note principal is **repayable**, plus interests, **in 5 years** (31 December 2028).
- Note is a hybrid instrument comprising:
  - **a host financial liability** (note payable plus interest)
  - an embedded derivative **liability** (conversion feature), as it fails "fixed-for-fixed" criteria, so does not meet a definition of equity under AASB 132.

Q: On 31 December 2024, should <u>host liability</u> be classified as current or non-current?

Example: Classification of a convertible debt

Under existing requirements of AASB 101

Mixed practice

Under amendments

Option can be exercised at any time

Conversion feature classified as liability

→ **Current liability**

Conversion feature can only be ignored when it is classified as equity under AASB 132

Useful KPMG resource

3 November 2022 | 3 min read

Global IFRS Institute

Highlights

- Right to defer settlement must exist at reporting date and have substance
- Liabilities with covenants – Classification criteria clarified and new disclosures
- Convertible debt may become current
- Effective date – Applies retrospectively from January 2024

IFRIC agenda decisions

The IFRIC agenda decisions

Likely frequency across entities:

High | Medium | Low

Tentative agenda decisions

- Guarantee over a derivative contract
- Homes and home loans provided to employee
- Insurance premiums receivable from an intermediary

Agenda decisions finalised by IFRIC and IASB

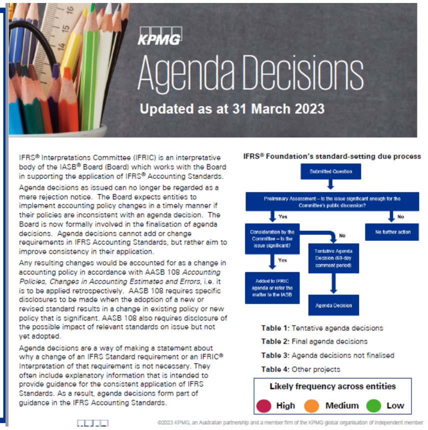
- Definition of a lease – substitution rights

IFRIC next meeting dates

6 – 7 June 2023
12 – 13 September 2023

Remember:

1. Accounting policy changes required if not consistent with agenda decision
2. Keep up to date with our IFRS IC Agenda Decisions summary



ESG update

Developments coming up...

ISSB

June 2023

ISSB expected to release the final versions of IFRS® sustainability standards:

- IFRS S1 General sustainability disclosure requirements
- IFRS S2 Climate related disclosures

ISSB

2024-2025

Expected effective date for IFRS S2 (from Jan 2024, first reporting Dec 2024) and IFRS S1 (to follow)

2023

2024

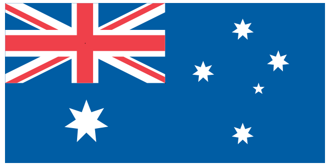
2025

Climate first relief

Developments coming up…

Legislation needs to be enacted to require Australian companies to adopt sustainability reporting standards.

2023 **2024** **2025**



First half 2023
Expected consultation paper on legislating climate - related financial disclosures in Australia

Australian Government
The Treasury

September 2023
AUASB to release updated assurance standards applicable for the ISSB standards

Australian Government
Auditing and Assurance Standards Board

December 2023/early 2024
Australian equivalent of IFRS S2 expected to be released

Australian Government
Australian Accounting Standards Board

1 July 2024
Expected effective date for AU climate related financial disclosures *(first reporting 30 June 2025)*

Australia context

- Feedback received similar to the matters that ISSB deliberated.
- No additional Australian-specific climate requirements expected.
- Concerns that proposal will create auditing or assurance challenges.

Meaning can be company specific.

Climate commitments

“ Paris-aligned “ Science-based

“Carbon neutral”

Climate change and energy use

- Carbon neutral in our operations from 2020
- Enable 100% renewable energy generation equivalent to our consumption by 2025
- Reduce our absolute emissions by at least 50% by 2030 (from FY19 baseline)

Decarbonise Telstra | Decarbonise grid | Decarbonise economy | Adapt to climate impacts

Source: Telstra 2022 Sustainability Report

“Net-zero”

Aligning our lending decisions to the Paris Agreement goals

Our success in supporting and accelerating a net zero transition by 2050 will be driven by our ability to help our customers reduce their emissions. To achieve this, we are:

- Factoring climate change risk into our lending for large business customers, primarily by assessing their capacity to respond to climate change and the evolving regulatory landscape.

Source: ANZ’s Climate change webpage

https://www.anz.com.au/about-us/esg/environmental-sustainability/climate-change/

Financial reporting considerations

Impact on financial statements can be pervasive.

Impairment of non-financial assets

Asset useful lives

Going concern

Disclosures - directors report ("front") and financial statements ("back")

Provisions and contingent liabilities

Disclosures - greenwashing

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Apply AASB 137.

Climate commitments – is there a liability?

Do climate related commitments give rise to a constructive obligation that meets the definition of a liability under AASB 137?

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Do climate related commitments give rise to a constructive obligation that meets the definition of a liability under AASB 137?

Has an entity made a sufficiently specific public statement that creates a valid expectation?

Apply AASB 137.

Climate commitments – is there a liability?

Do climate related commitments give rise to a constructive obligation that meets the definition of a liability under AASB 137?

What does the statement relate to – past action or future event?

Climate commitments – is there a liability?

Apply AASB 137.

Do climate related commitments give rise to a constructive obligation that meets the definition of a liability under AASB 137?

Can the entity avoid a future outflow of resources?

Climate commitments – is there a liability?

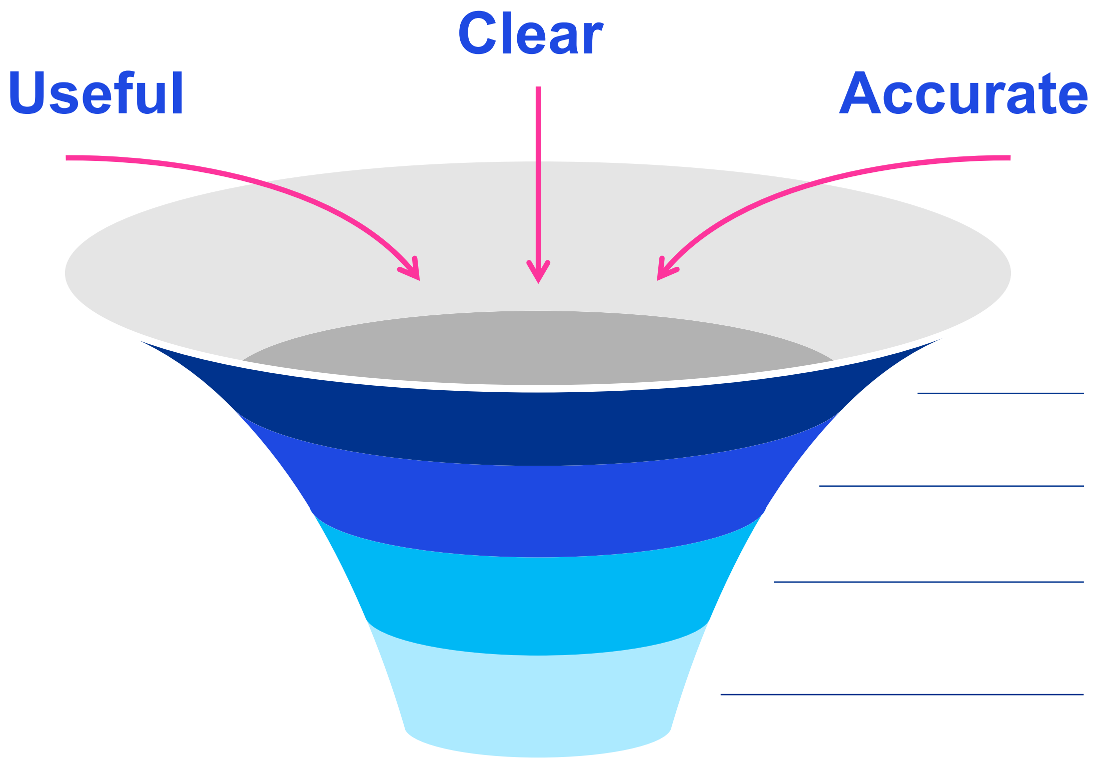
Possible future AASB 137 amendments that may impact timing of liability recognition.

Do climate related commitments give rise to a constructive obligation that meets the definition of a liability under AASB 137?

- Has an entity made a sufficiently specific public statement that creates a valid expectation?
- What does the statement relate to – past action or future event?
- Can the entity avoid a future outflow of resources?

Ensure clarity in communication

Enforcement against greenwashing is a current ASIC priority! Consider INFO 271.



Statements about sustainability-related targets should clearly explain:

- What the target is
- How and when targets are expected to be met
- How progress milestones will be measured
- What assumptions are relied on when setting target or when measuring progress

Accounting for power purchase arrangements

Setting the scene...

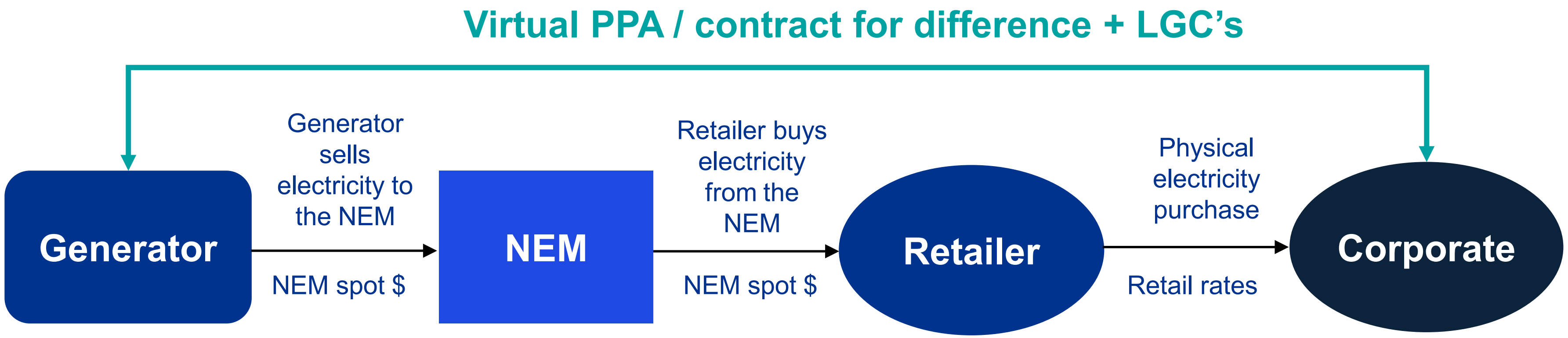


Illustration of the operation of the NEM

Key Considerations:

IFRIC Agenda Decision

Generally not a lease in the Australian market

Accounting for electricity component

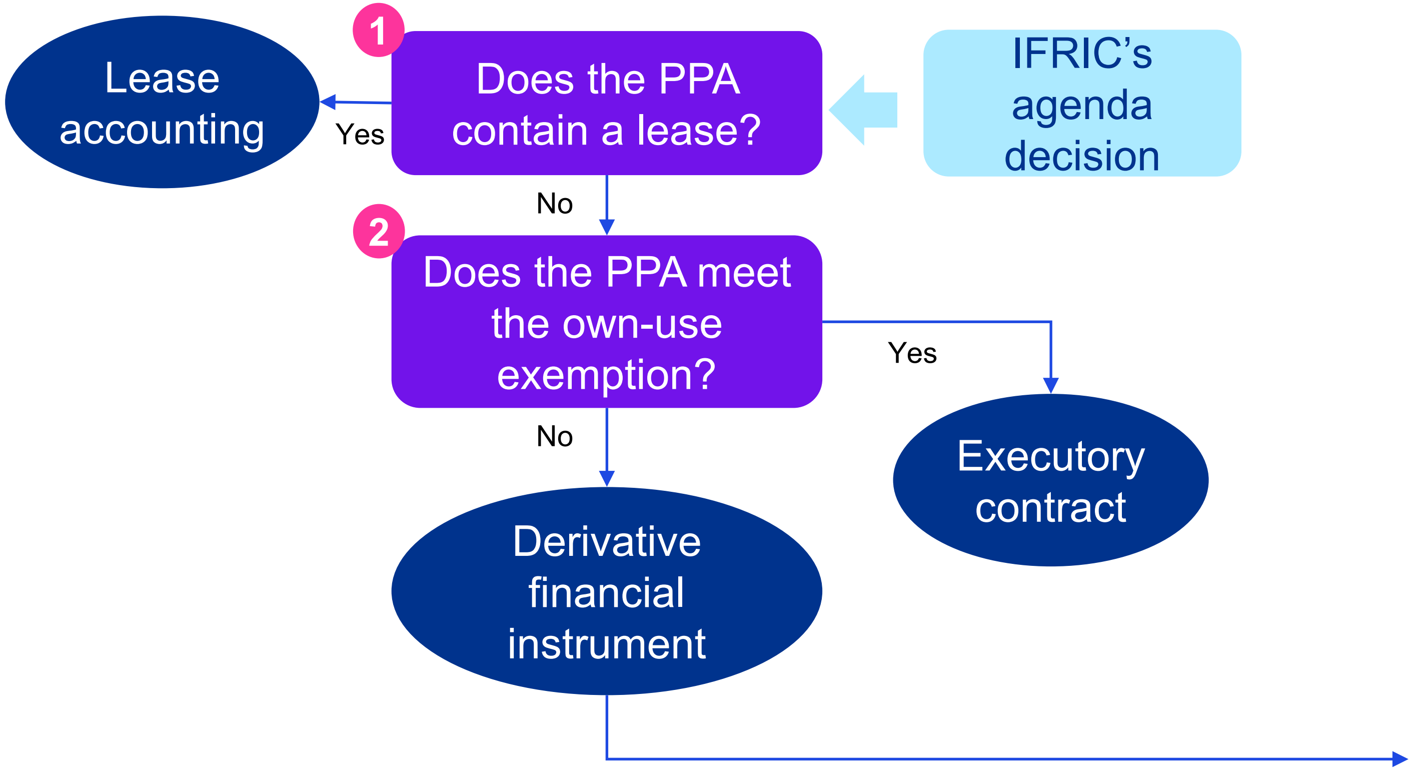
Accounting for LGC component

Estimating Fair Values

Accounting for PPAs by corporates

Accounting for the electricity component

The steps set out below assist organisations to determine the appropriate accounting for the **electricity** component of the VPPA.



Typical outcome

If electricity component of PPA **does not contain a lease** and **does not meet own-use exemption**, it is accounted for as a **derivative financial instrument at FVTPL.**

Fair value of the electricity derivative is determined using the income approach through a **discounted cash flow** methodology in accordance with AASB 13. Key inputs into valuation include forward electricity prices, estimated electricity generation, inflation and credit adjusted discount rates.

Accounting for PPAs by corporates

Accounting for the LGC component

No single accounting standard applies to purchased Large-scale Generation Certificates (**LGC's**) obtained as part of the PPA. We typically expect organisations to account for LGC's as either inventories or intangible assets, based on the following underlying **business models:**

Business model	Classification	Initial recognition	Subsequent measurement
Purely held for self surrender	Intangible Asset	Cost	Cost less impairment*
Packaged to be on-sold as a product and/or held for self surrender (Mixed)	Inventory	Cost	Lower of cost and NRV
Held for trading	Inventory *(Broker-trader exemption)*	Fair Value less costs to sell	Fair Value less costs to sell

*The AASB 138 revaluation model is generally not applicable as currently LGCs are not actively traded in a deep and liquid market i.e. are not level 1 prices.

Cost = Allocation of bundled fixed price determined at contract inception

Fair Value = market or spot price at reporting date

Complexities in accounting for PPAs

Consider involving a **specialist** in navigating these complexities..

Some potential complexities which could impact the accounting and valuation of arrangement include:

Splitting a 'bundled' PPA price into its electricity and LGC components	Treatment of day one gains / losses	Forecast NEM electricity and LGC pricing for term of the PPA (Sourcing & observability)
Estimating inflation, discount factors and credit adjustments	Forecasting expected electricity generation output for variable volume PPA's	Multi-party arrangements
Pricing that includes caps and / or floors	Options to terminate / extend the term of PPA	Shortfall payment mechanisms based on Maximum / Minimum generation clauses

Hedge Accounting…?

Questions

Regulatory update

ASIC financial statement surveillance results

Non-IFRS measures

OFR – material business risks

Impairment and asset values

Revenue recognition

16 listed entities
made additional risk disclosures

7 entities
changed financial reports following ASIC inquiry

Disclosures on material business risks

Investors and other interested parties (eg other preparers of annual reports) are encouraged to review.

Watch out for inconsistency in business risks disclosed in the annual report and other published corporate reports (eg investor pack).

Increased expectation to disclose as material business risks:

- Climate change risk
- Cyber security risks

External auditors may report as *suspected contravention* of the Corporations Act disclosures that are omitted, materially misstated or misleading.

The relevant most significant business risks should be provided and described in context.

Watch out for developments

Areas to focus on at 30 June 2023

Solvency and going concern assessments

Provisions

Asset values

Disclosures in the financial report and the OFR

Subsequent events

Current economic environment

Uncertain times...

Interest rates

Heightened interest rate environment

Inflation

Commodity prices.
Raw materials.
Labour costs.

Growth

Weakening growth, consumer confidence, recession fears.

Supply chain disruption

Bottlenecks,
Trade friction.

Capital Markets

Bank collapses.
Systemic risk.

Interest rates and inflation - Impairment

Trigger for impairment testing

Challenges in estimating cash flows

Reflecting risks in the discount rate

Most organisations are now operating in a high interest rate and inflationary period relative to the past decade. Organisations may need to test non-current assets for impairment if they are significantly impacted.

Financial reporting areas impacted by inflation & rising interest rates

Financial instruments

- Measurement – amortised cost
- Measurement – fair value
- Expected credit losses
- Derivatives and hedge accounting

Non-financial assets and leases

- Impairment
- Lease assets
- Lease liabilities

Employee benefits and provisions

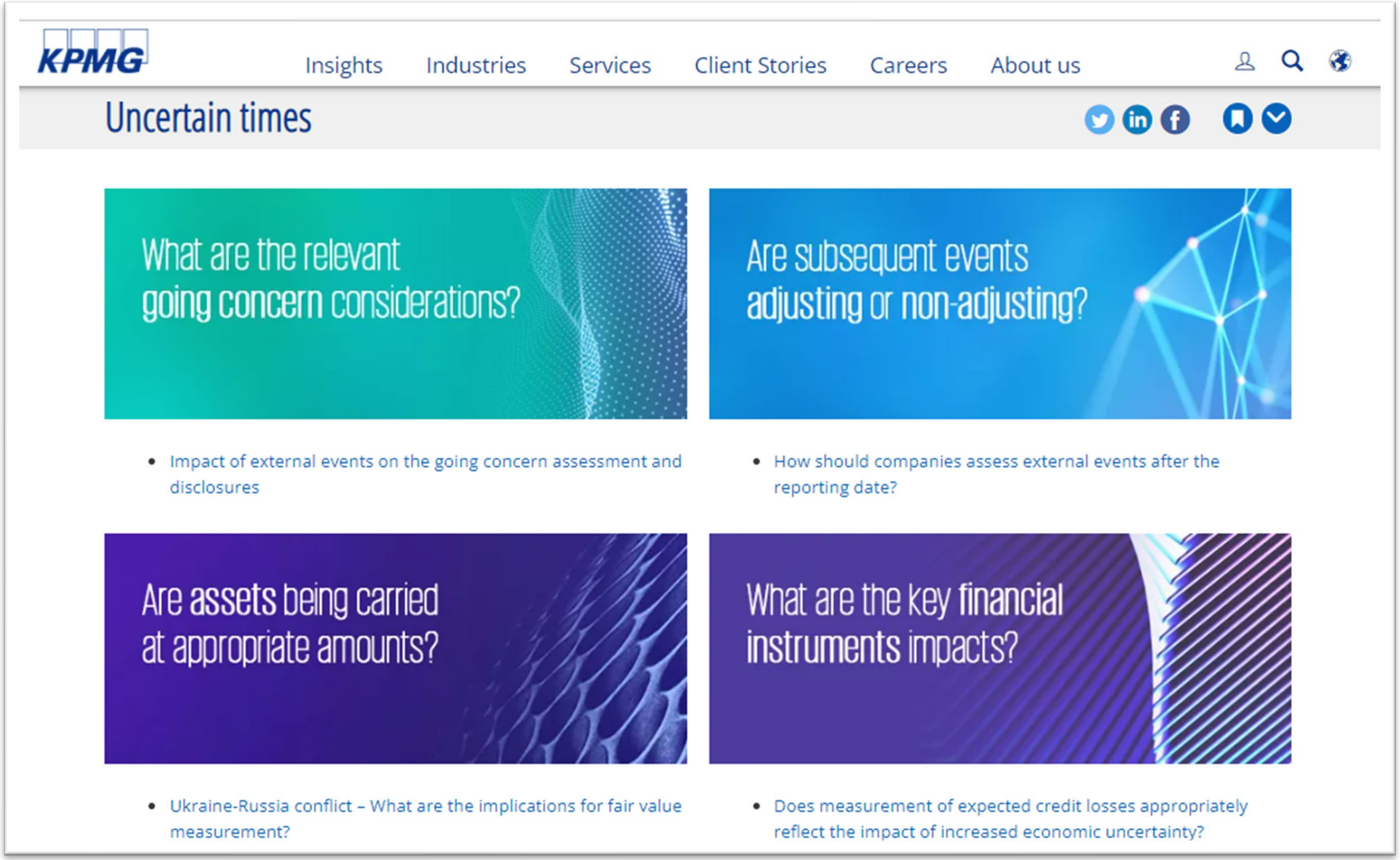
- Provisions

Other matters

- Revenue recognition
- Borrowing costs
- Financial statement disclosures

Any financial reporting areas that incorporate a **discount rate** in calculations will likely be affected and need to be considered

Uncertain times – where to find help?



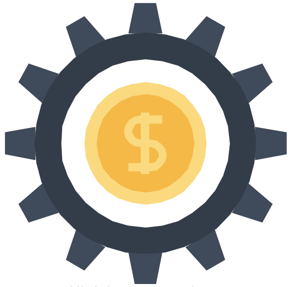
Cash and cash equivalents

Cash and cash equivalents

What is the issue?

Cash comprises of “cash on hand and <u>demand deposits</u>”

- **Cash equivalents** are short-term, highly liquid investments that are readily convertible into known amounts of cash which are subject to an insignificant risk of changes in value [**nature**].
- **Cash equivalents** are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes [**purpose**].



Demand deposit

Cash includes **demands deposits** that:

- Have same level of liquidity as cash; and
- Are able to be withdrawn at any time without penalty

Test 1 – Does it meet a definition of cash?

Contractual restrictions imposed by a 3rd party do not change nature of a demand deposit

IFRIC AD
Demand deposits with restrictions on use

Test 2 – Does it meet a definition of cash equivalents?

Purpose

Held for meeting short-term cash commitments

Example 1: Demand deposit

Scenario

- Dreamworld has a $5m deposit with a bank that allow them to withdraw any amount from it but only with **14 days' notice**
- Dreamworld is required to maintain the $5m deposit under a contract with 3rd party upon completion of a project (project is expected to take 2 years)
- If the required level of cash is not maintained, Dreamworld breaches its contractual obligation with the 3rd party

Q: Does a demand deposit meet a definition of cash and cash equivalents?

Example 1: Demand deposit

Test 1 – Does it meet a definition of cash?

Same liquidity as cash

No penalty to redeem

Example 1: Demand deposit

Test 1 – Does it meet a definition of cash?

Same liquidity as cash

No penalty to redeem

Test 2 – Does it meet a definition of cash equivalents?

Nature

Purpose

Held for meeting short-term cash commitments

Example 2: Term deposit

Scenario

- Adventures Ltd placed funds in a deposit account with a stated ‘maturity date’ of **six months**.
- If held to maturity, then the deposit bears **interest** on a daily basis at a **fixed six-month rate (FD rate)** determined at the date of deposit. The FD rate is higher than the interest rate offered for a demand deposit account.
- Adventures Ltd can redeem the deposit at any time.
- If Adventures Ltd redeems the fixed deposit before the maturity date, then it receives the actual demand deposit interest rate from the initial deposit date to the date of redemption, not the FD rate.
- Adventures Ltd holds the deposit for the purpose of meeting short-term cash commitments.

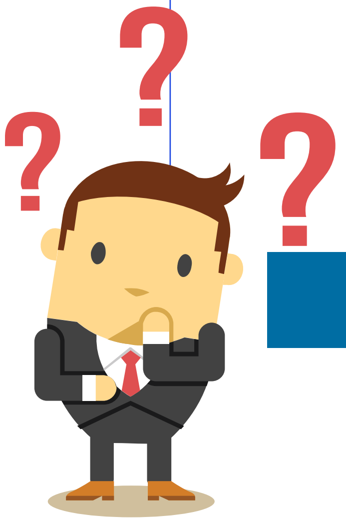
Q: Does a term deposit meet a definition of cash and cash equivalents?

Example 2: Term deposit

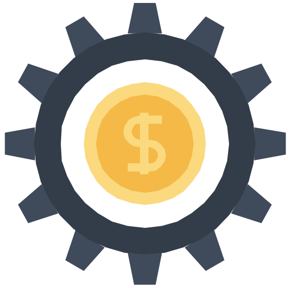
Test 1 – Does it meet a definition of cash?

Same liquidity as cash (redeemed at any time)?

Is there a penalty to redeem earlier?



Test 2 – Does it meet a definition of cash equivalents?



Nature

Short-term investment?
3 months a suggested threshold by AASB 107

Readily convertible into cash?
How much advanced notice to withdraw?

Insignificant risk of changes in value?
Are there any fees payable to terminate earlier or interest forfeited?

Purpose

Meeting short-term cash commitments vs for investment purposes?

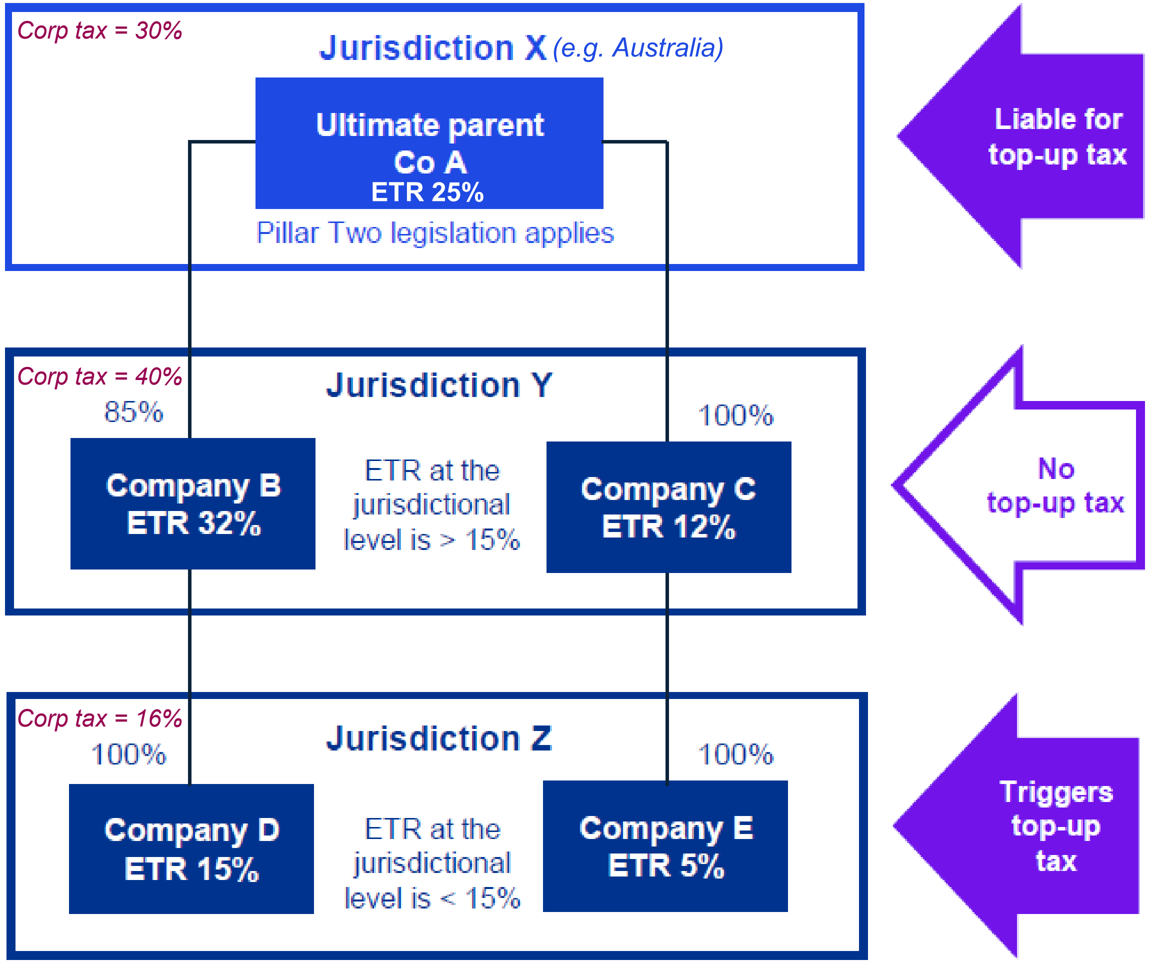
Global tax reform, BEPS 2.0

BEPS Pillar 2 – Global Minimum Tax

02

What	• **A global minimum tax of 15%** for each jurisdiction that a multinational group (MNE) operates (based on aggregate results of all entities in that jurisdiction)
Who	• MNE > **EUR750 million** (approx. A$1.2b) of global turnover in 2 of last 4 years (excludes govt, NFP, pensions, investment funds)
When	• Starts in many jurisdictions from 1 January 2024
How	• If **jurisdiction aggregate ETR < 15%** then **top up tax** generally **payable** by ultimate parent on behalf of low tax jurisdiction • **Highly complex** calculation involving tax and accounting inputs

Application of Pillar 2 rules



Top-up tax can be borne by:

- **Ultimate parent** if Pillar 2 legislation in place
- **Other subsidiaries in a group** in certain circumstances, including when Pillar 2 legislation is not enacted in parent's jurisdiction, but in place in subsidiaries' jurisdiction

Jurisdiction by jurisdiction calc – not entity by entity

- ETR defined under the Pillar 2 rules (not AASB)
- Complex computation requiring aggregation of results by jurisdiction (accounting data is starting point)
- Potentially hundreds of data points across multiple countries
- Can have *corporate tax rate >15% but Pillar 2 ETR <15%* (i.e. due to incentives and Pillar 2 tax adj)

Accounting complexities and considerations from Pillar 2

Pillar 2 (P2) top-up tax is **in scope of AASB 112 *Income taxes*** – deferred taxes recognised once law substantively enacted?

Proposed AASB 112 amendment - exemption from P2 deferred tax accounting & new disclosures
(expected by June 2023)

Disclosures expectations for 30 June 2023 and beyond?

P2 taxes have **implications for impairment testing** of non-financial assets now (VIU and FVLCD)

Go forward accounting
KPMG guidance to be developed

IAS 12 Proposed amendments and disclosures

Proposal	Mandatory temporary exemption from deferred tax accounting for all Pillar 2 income taxes. New disclosure requirements to apply.
Application	Immediately and retrospectively on issue of final amendment with new disclosures predominantly for years commencing on or after 1 Jan 2023 (no interim period disclosure for interim periods ending in 2023 calendar year).

Disclosures

Before 31 December 2023 (including 30 June 2023)

No tax law enacted, or before 31 Dec 2023

- Disclose that IAS 12 amendments applied
- Information on the amount and drivers of entity's Pillar 2 exposure *(refer Appendix 4 for recommended disclosures)*

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31 Dec 2023 – Nov 2024 year ends

Once tax law enacted, before top-up tax applies*

- Information that helps understanding of entity's exposure to Pillar 2 income taxes (required disclosure)
- Refer Appendix 4 for required disclosures

Years commencing 1 Jan 2024

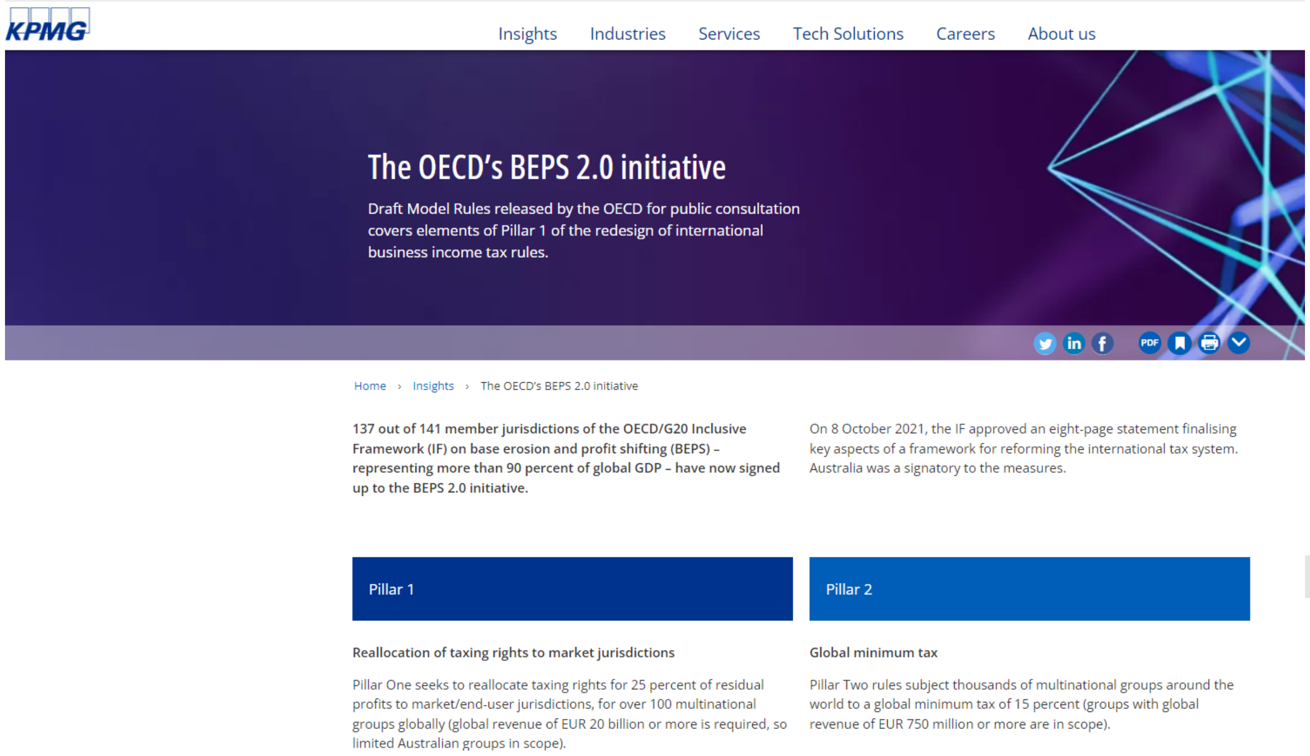
After top-up tax applies

- **Current tax expense** related to top-up tax (required disclosure)

IAS 12 amendment – proposed mandatory disclosure
(post April 2023 Board deliberations – final amendment expected May/June 2023)

**IASB met in April 2023 to discuss feedback on IAS 12 proposed amendments and agreed to proceed with the exception. The Board have made substantive changes to the original disclosure proposals. The updated disclosures are reflected in this slide*

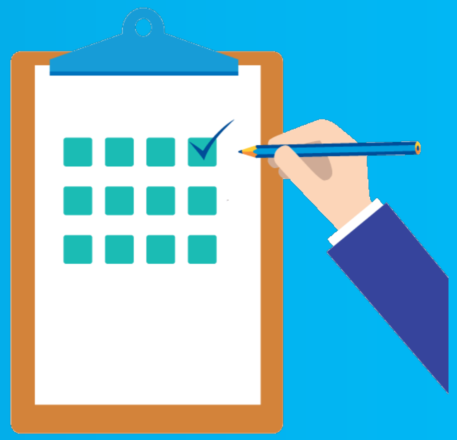
Where can you find out more?



kpmg.com.au – search "BEPS 2.0"

Key considerations for CFOs

Wrap up



Take-aways

1. **Review the newly effective standards and amendments and assess their impact on your organisation**

2. **Assess accounting implication of power purchase arrangements or emissions reduction commitments made by your organisation to ensure compliance with relevant standards**

3. **Be aware of ASIC's focus areas, in particular the OFR, and consider whether they impact the preparation of financial reports**

4. **Reflect the impacts of these uncertain times in your financial reports, including consideration of impacts on impairment testing**

5. **Review analysis of what is included in cash and cash equivalents to ensure the classification is appropriate in accordance with the accounting standard**

6. **Consider how BEPs Pillar 2 might impact your organisation and the need for disclosures in Annual Reports**

Questions


Thank you

Appendix 1:

Standards effective for 30 June 2023 Y/Es and H/Ys

Standards available for early adoption

Standards first effective – 30 June 2023 Y/Es

Onerous Contracts—Cost of Fulfilling a Contract [Amendments to AASB 137]	Clarifies that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.
Property, Plant and Equipment: Proceeds before Intended Use [Amendments to AASB 116]	Prohibits a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
AASB 2020-3 Annual Improvements 2018-2020 and Other Amendments	Amendments to existing accounting standards, particularly in relation to: • AASB 1 – simplifies the application of AASB 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences. • AASB 3 – to update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. • AASB 9 – to clarify the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. • AASB 116 – as described above. • AASB 137 – as described above. • AASB 141 – to remove the requirement to exclude cash flows from taxation when measuring fair value, thereby aligning the fair value measurement requirements in AASB 141 with those in other Australian Accounting Standards.

Annual reporting periods beginning on or after 1 January 2022

Standards first effective – 30 June 2023 H/Ys

AASB 17 Insurance contracts and amendments to AASB 17 Insurance Contracts[1,2]	Expected to result in lower deferral of acquisition expenses, the introduction of risk adjustments for reporting purposes, and a likely change in 'boundary' for certain contracts such as yearly renewable term insurance policies.
AASB 2021-5 –Deferred Tax related to Assets and Liabilities arising from a Single Transaction	The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences and clarify that the exemption does not apply to transactions such as leases and decommissioning obligations.
AASB 2021-2 Disclosure of Accounting Policies and Definition of Accounting Estimates **[Amendments to AASB 101 and AASB 108]**	Introduces a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. Clarifies several aspects of materiality application to disclosure of accounting policies and requires companies to disclose their *material* accounting policies rather than their *significant* accounting policies.

Annual reporting periods beginning on or after 1 January 2023

1 Note early adoption of AASB 17 requires concurrent application of AASB 9 Financial Instruments.

2 AASB 2022-9 makes public-sector modifications to AASB 17 and defers its application for public sector entities to 1 July 2026.

Standards available for early adoption

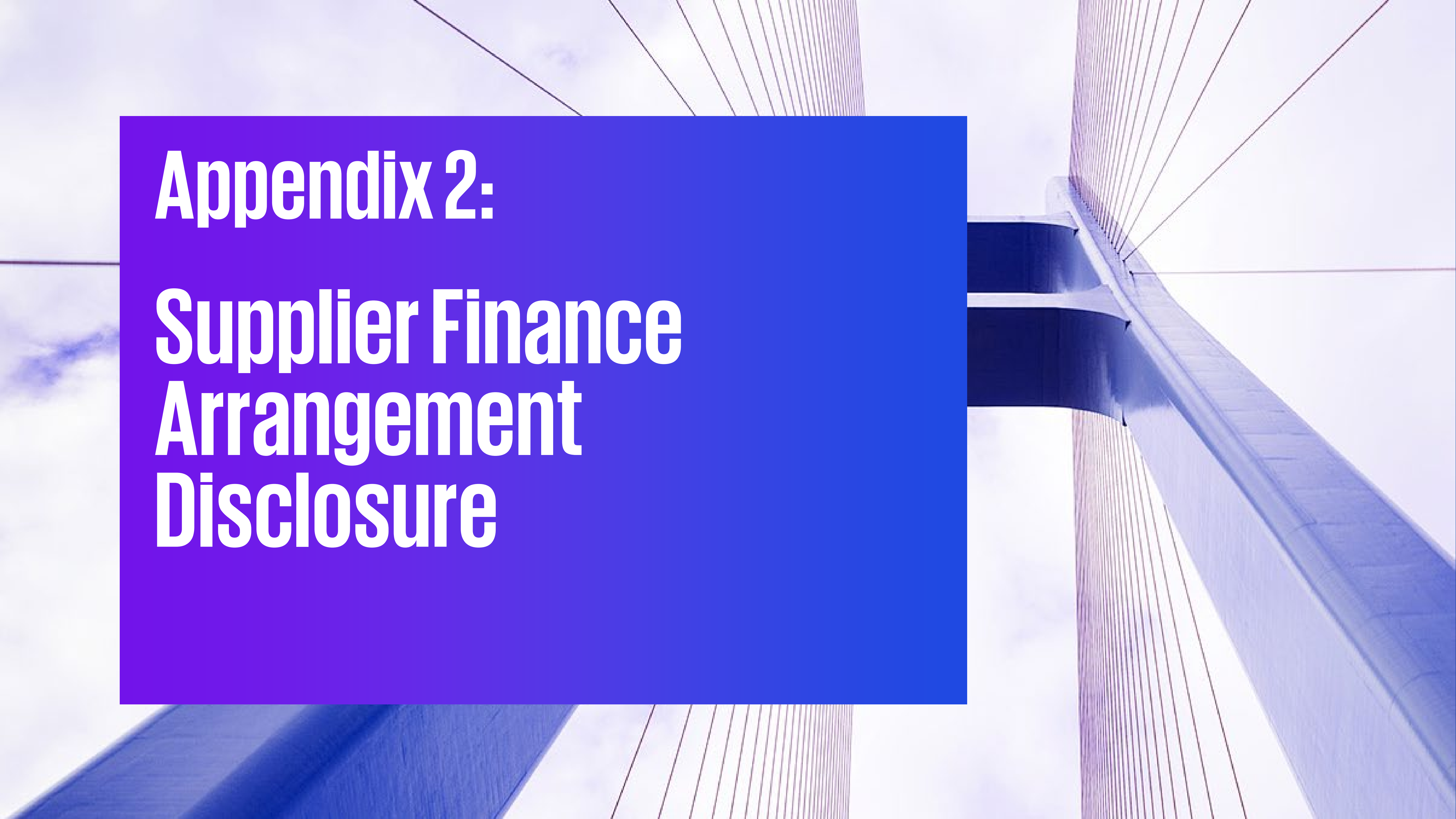
Classification of Liabilities as Current or Non-current [Amendments to IAS 1/AASB 101]	Amends AASB 101 to require a liability be classified as current when companies do not have a substantive right to defer settlement at the end of the reporting period.
Lease liability in a sale-and-leaseback [Amendments to IFRS 16]	The amendments impact how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction, including introducing a new accounting model for variable payments on initial recognition and subsequent measurement of the lease liability.
Fair value measurement of non-financial assets for Not-for-Profit Public Sector Entities (NFP) (PS) [Amendments to AASB 13]	The amendments modify the application of AASB 13 in relation to non-financial assets of NFP public sector entities not held primarily for their ability to generate net cash inflows.

Annual reporting periods beginning on or after 1 January 2024

Standards available for early adoption (contd.)

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [Amendments to AAB 3 and AASB 128]	Requires the full gain or loss to be recognised when the assets transferred meet the definition of a 'business' under AASB 3 Business Combinations (whether housed in a subsidiary or not).

Annual reporting periods beginning on or after 1 January 2025



Appendix 2:

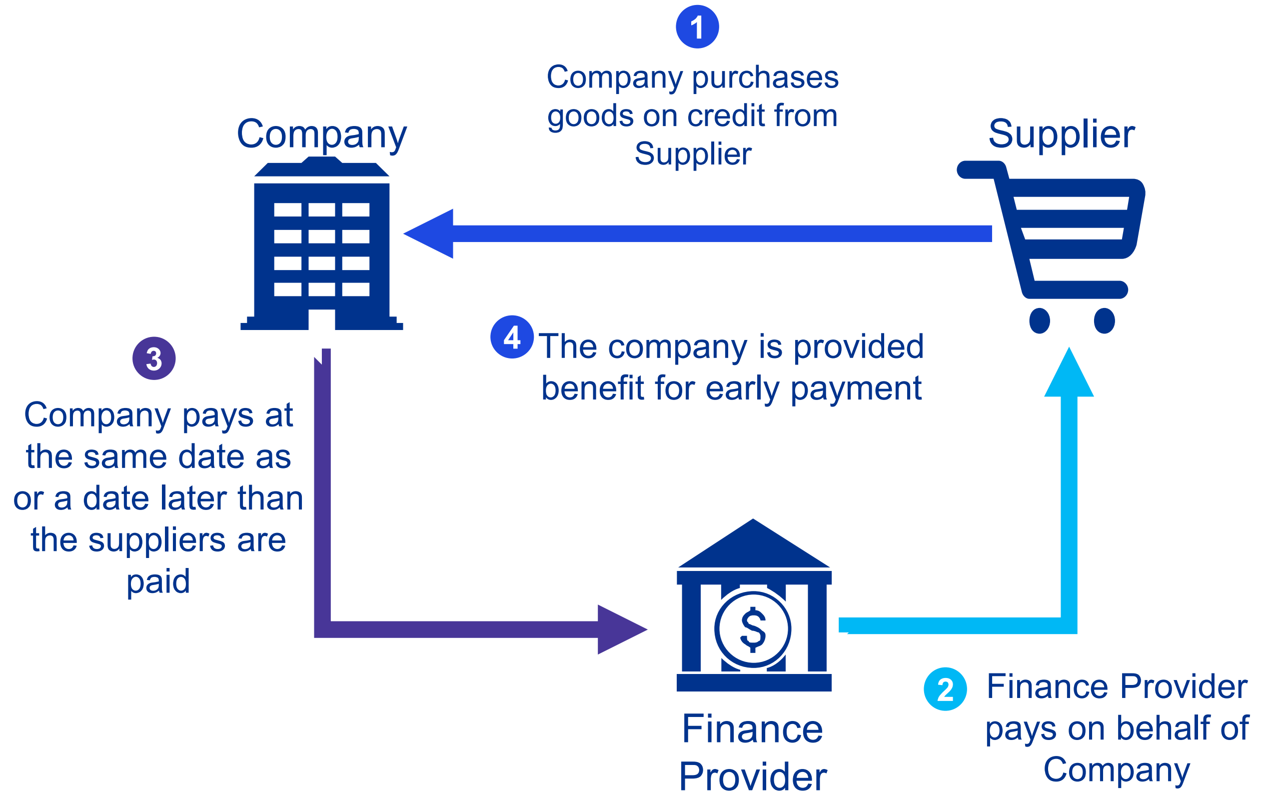
Supplier Finance Arrangement Disclosure

Supplier finance arrangements

Supplier finance arrangements
[IAS 7/IFRS 7]

What is supplier financing?

- Also known as reverse factoring
- Financier agrees to pay company's suppliers and company will pay financier at a later date
- Benefits may include:
  - Extended payment terms
  - Streamlining accounts payable process – e.g. single monthly payment to financier
  - Discounts for early payment



Additional disclosure requirements amending
IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures

Supplier finance arrangements - disclosures

Transition relief available

Objectives

To enable investors to assess affects on company's liabilities, cash flows and liquidity risk.

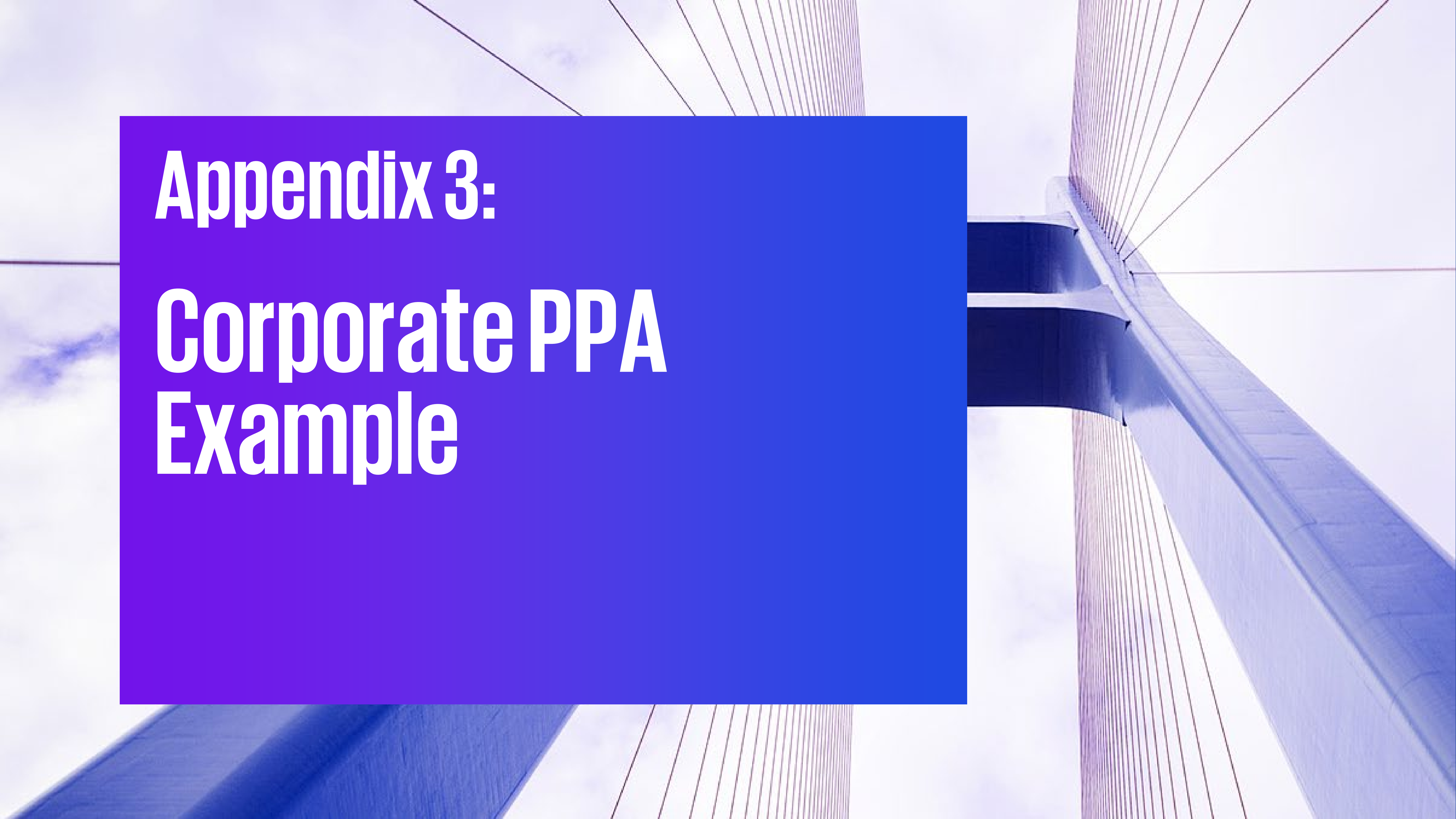
What do you need to do now?

- Start identifying complete list of arrangements
- Obtain additional information from finance providers
- Plan for new processes and control
- Consider whether arrangements need to be amended

Amendments are expected to be effective from 1 January 2024

Example: Supplier finance arrangement with Finance Provider A		
Qualitative information		
[Disclose terms and conditions (e.g. extended payment terms and security or guarantees provided)]		
Quantitative information		
	End of reporting period 31.12.20X1	**Beginning of reporting period 1.1.20X1**
Carrying amount of liabilities		
Presented within trade and other payables:	2,000	1,500
– of which suppliers have received payment from finance provider	1,500	1,100
Range of payment due dates		
Liabilities that are part of the arrangement	XX-XY days after invoice date	XZ-ZX days after invoice date
Trade payables that are *not* part of an arrangement	YY-YX days after invoice date	YZ-ZZ days after invoice date

To include SFAs as one relevant factor in the IFRS 7 liquidity risk disclosures



Appendix 3:

Corporate PPA Example

Corporate PPA example

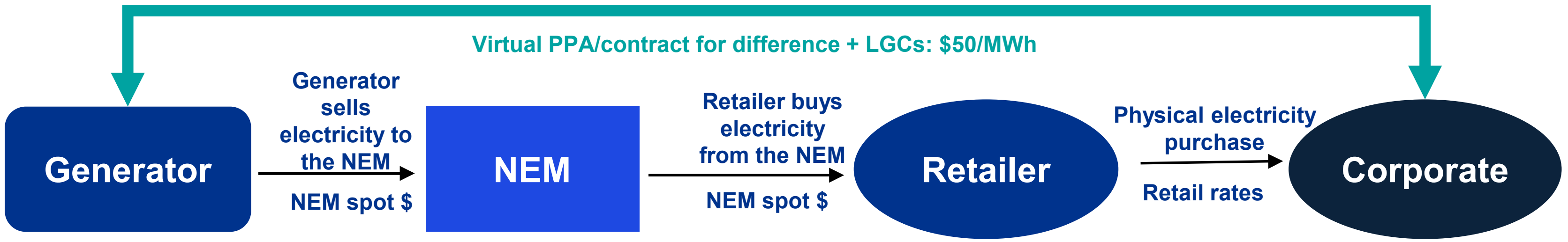
Scenario:

Corporate X enters into a PPA with Generator Y for a term of 15 years. Y creates one LGC for every megawatt hour generated by its hydropower plant. Under the terms of the PPA :

i) X and Y agree to make financial settlements based on the difference between an agreed fixed price of $50/MWh and the spot price in the market based on 75% of power generated by the hydropower plant (expected to be approximately 165MW); and

ii) X receives LGCs from Y.

X does not receive physical electricity from Y. X purchases electricity for physical delivery from Retailer Z at $55/MW fixed for one year before being reset annually. X has net-zero emissions targets and intends to use the LGCs to offset against its electricity consumption.



Corporate scoping considerations:

How is the electricity component accounted for?

As the PPA does not contain a lease and there is no delivery of electricity, the electricity component is accounted for as a derivative financial instrument at FVTPL.

How are the LGCs accounted for?

X accounts for LGCs as intangible assets in line with its business model of surrendering the certificates.

Corporate PPA example

Allocation of consideration between the electricity derivative and LGC components

X allocates the $50/MWh price across the electricity derivative and LGCs on a relative fair value basis as follows:

- X uses ABC Energy Consultant's market-modelled forward curves for electricity prices and LGC prices to forecast out the total value of both components over the 15 year contract term at contract execution date.
- Based on the forward curves, X allocates $40/MWh of the bundled contractual fixed price to the electricity derivative and $10/MWh to the LGCs.

Valuation and accounting for electricity derivative

X uses a discounted cash flow methodology to determine the fair value of the derivative in accordance with AASB 13 *Fair Value Measurement*.

Key inputs into the valuation include forward electricity price curves which are used to forecast future floating cash flows, estimated electricity generation, inflation and credit adjusted discount rates.

At inception of the contract, the transaction price equals the fair value, the fair value of the derivative contract is nil at inception. The valuation model is calibrated to ensure the day 1 fair value equals the transaction price of nil.

Financial settlements during the term of the arrangement based on the difference between the agreed fixed price of $40/MWh and the spot price in the market are recognised against the electricity derivative asset or liability.

Changes in the fair value of the electricity derivative are recognised in the profit or loss.

Corporate PPA example

LGCs:

X recognises LGCs as intangible assets at a cost of $10/MWh as they are acquired from Y. At year end, X determines how many LGCs to retire to offset electricity consumption. LGCs retired are recognised as part of operating expenses.

Electricity purchase from the retailer:

X accounts for the electricity purchased from Retailer Z as an executory contract and recognises payables and expenses as electricity is supplied.

How does entering a VPPA impact the electricity price risk exposure of a Corporate?

A VPPA exposes the customer to spot electricity price risk. This is because by entering into the VPPA, the Corporate is exposed to the spot price of electricity (it agrees to receive spot price electricity and pay a fixed price – the net difference is settled in cash with the Generator).

However, the Corporate's purchase of physical electricity from a Retailer is typically fixed for a period of time before being reset based on the (regulated) market price of electricity.

Therefore by entering into such a VPPA, the Corporate is now exposed to the volatility of the spot electricity prices which is fair valued and recognised in the income statement, with no mitigating financial effects.

Appendix 4:

BEPS 2.0 Pillar 2 - Detailed Disclosures

IAS 12 Proposed amendments and disclosures

Proposal: Mandatory temporary exemption from deferred tax accounting for all Pillar 2 income taxes. New disclosure requirements to apply.

Application: Immediately and retrospectively on issue of final amendment with new disclosures predominantly for years commencing on or after 1 Jan 2023 (no interim period disclosure for interim periods ending in 2023 calendar year).

Disclosures

Before 31 December 2023

No tax law enacted, or before 31 Dec 2023

- ❑ Disclose that IAS 12 amendments have been applied (required disclosure once amendment issued and relevant to entity)
- ❑ Whether entity is expected to be in scope of BEPS 2.0 Pillar 2. **KPMG recommended** disclosures:
  - The fact that entity operates in jurisdictions with a statutory tax rate < 15% or effective tax rate is < 15% due to tax incentives/government support
  - Information about expected/actual enactment* of Pillar 2 tax laws and their effective dates
  - Information about possible financial impacts, indicating where they are not yet known or reasonably estimable.

31 Dec 2023 – Nov 2024 year ends

Once tax law enacted, before top-up tax applies*

- ❑ Information that helps users of financial statements understand the entity's exposure to Pillar 2 income taxes arising from that legislation (required disclosure). This includes:
  - Known or reasonably estimable qualitative and quantitative information about exposure at end of reporting period i.e. indicative range
- ❑ If exposure is not known or reasonably estimable, disclose that fact including information about progress made in assessing exposure (required disclosure)

Years commencing 1 Jan 2024

After top-up tax applies

- ❑ **Current tax expense** related to top-up tax (required disclosure).

IAS 12 amendment – proposed mandatory disclosure
(post April 2023 Board deliberations – final amendment expected May/June 2023)

**IASB met in April 2023 to discuss feedback on IAS 12 proposed amendments and agreed to proceed with the exception. The Board have made substantive changes to the original disclosure proposals. The updated disclosures are reflected in this slide*